# The Churchill Corporation Annual Report 1993 Churchill

*"Churchill's mission is to be a management company of majority ownership positions in profitable, well managed construction companies which pursue specialty market segments."*

## Corporate Profile

The Churchill Corporation is a public company, listed on the Alberta Stock Exchange (CUQ). The Company has 300 registered shareholders of 9,377,265 Class A common shares and 2 registered holders of 8,423,077 preferred shares. Both common and preferred shares have voting status.

In 1981, a group of investors incorporated Churchill Development Corporation Ltd. (a closely-held private corporation) for the purpose of investing in mortgages and in the management and development of real estate projects. The name of the company was changed to The Churchill Corporation in July, 1985.

In 1987, The Churchill Corporation was merged with Churchill SBEC Limited and A.I.L.-Alberta Investments Ltd. On November 30, 1987, the merged companies were granted a listing on the Alberta Stock Exchange under the name of The Churchill Corporation. At that time, the scope of Churchill's portfolio of investments expanded to include real estate, high technology, manufacturing and service industries.

In 1988, the Stuart Olson Construction group of companies was acquired. Since then, Churchill has focused on the development of construction companies pursuing specialty market segments. Investments not having a synergy with the construction business are being divested to provide capital for growth.

## Subsidiaries

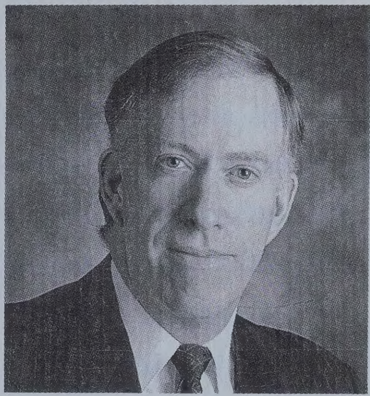
| | |
|---|---|
| Churchill Resource Investments Inc. | 100% |
| Insulation Holdings Inc. | 80% |
| SBEC Holdings Ltd. | 100% |
| Stuart Olson Construction Ltd. | 100% |
| Triton Projects Limited Partnership | 80% |

## Affiliates

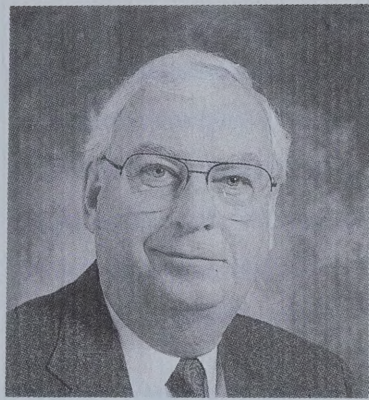
| | |
|---|---|
| Lafrentz Road Services Ltd. | 41% |
| Russell Technologies Inc. | 47% |
| Shippers Supply Inc. | 35% |

# Report to Shareholders

This has been a pivotal year for The Churchill Corporation. Our construction operations successfully responded to changing markets, significant non-core investments were divested, and the Corporation as a whole developed a strategic plan for profitable growth.



H.R. (Hank) Reid, President and C.E.O.



S. K. Hooper, Chairman

The Consolidated Revenue of Churchill in 1993 was $195 million as compared to $225 million in the previous year. Notwithstanding the reduction in revenue, gross profit was relatively unchanged due to improved margins. Operating Income from Continuing Operations advanced 40% over 1992, despite the inclusion of a $1.4 million restructuring cost in Indirect and Administrative Expenses.

The construction operations were profitable, having completed a program of restructuring and a focusing of efforts on specialty construction projects with higher margins. Personnel resources are now more closely matched to local markets enabling the businesses to be profitable at lower activity levels.

**"Operating Income from Continuing Operations advanced 40% over 1992"**

The sale of Marlin Travel, which generated $750,000 in profit contributed to the favourable operating results.

Interest Expense was reduced to $1.6 million in 1993, some 22% below the cost in 1992, reflecting the Company's progress in debt reduction and cash flow management. However, the absolute level of the debt service cost continues to be too high and adversely affects the profits achieved in operations.

The Corporation recognized a $4.2 million reduction in the value of non-construction assets in 1993. Of this amount, $2.0 million reflects the anticipated costs of a planned accelerated disposal program to release the substantial capital which is still locked up in non-productive assets. The remaining $2.2 million represents a writedown of an agreement receivable as a result of diminished revenue prospects in a joint venture investment.

Losses of $998,000 from Discontinued Operations were largely due to operating losses incurred by Maran Equipment before its sale on November 1, 1993. Although progress had been made in reducing the substantial

losses incurred by this equipment business, sustained profitability was considered unlikely. As a result of the sale, Churchill benefits from the elimination of $1.2 million in debt and ongoing operational losses.

Churchill's Net Loss for 1993 is $5.3 million as compared to $2.2 million for 1992. On a basic and fully diluted basis, this represents a loss of $0.67 per share in 1993 and a loss of $0.33 per share in 1992. Excluding losses associated with the strategic restructuring, discontinuance of operations, and asset revaluation, the Company's operations were profitable in 1993.

The Company's 1993 Balance Sheet, reflecting a change in the accounting treatment for the 50% interest in a joint venture, no longer includes non-recourse joint venture debt obligations which were $11.6 million at December 31, 1992. Churchill's interest bearing debt was approximately $25 million at December 31, 1993, which after adjusting for the impact of the joint venture accounting change, is $2 million lower than at December 31, 1992. This improvement in debt was the result of the Company's divestiture program which included the sale of Maran Equipment, several real estate properties and virtually all the assets of Marlin Travel.

**"...construction operations successfully responded to changing markets..."**

Management and the Board of Directors have recently completed a five year Strategic Plan for the Company. Churchill has defined its "Mission" to be a management company of majority ownership positions in profitable, well-managed, construction companies which pursue specialty market segments. The strategic direction includes a plan to restructure the capitalization of the company, accelerate the disposal of non-core assets, and adopt a program of growth for the profitable subsidiaries.

Construction and related businesses have been identified as the core activity for maximizing future growth and earnings. Businesses and assets not strategically aligned with construction are being sold, on an accelerated basis, to eliminate the carrying cost burden and improve liquidity. The provisions taken in the 1993 accounts reflect the anticipated costs of implementing this strategy. The core continuing businesses have been identified as:

Stuart Olson Construction Ltd.
Insulation Holdings Inc.
Triton Projects Limited Partnership
Lafrentz Road Services Ltd.

Having achieved significant gains in the performance of the core construction companies, new business opportunities are being sought in higher margin niche markets. Markets outside western Canada are being developed in conjunction with strategic partners in complementary businesses.

In line with the objectives of the Strategic Plan, a process is currently underway to recapitalize the Company so the Balance Sheet is more closely aligned to the requirements of our business. During 1993, the Corporation effected a reorganization of the legal entities comprising our construction group to simplify and improve arrangements for sustaining financing and bonding on attractive terms. Negotiations are now underway with our various stakeholders to enhance Churchill's capital structure.

Upon successful implementation of the Strategic Plan, Churchill expects to be in a position to substantially trim its debt and consistently earn profits for shareholders.

> **"...new business opportunities are being sought in higher margin niche markets."**

In May 1994, the Board of Directors accepted, with regret, the resignation of Ms. Mary Cameron as a director of Churchill. Ms. Cameron has accepted a senior executive appointment with a financial institution, requiring her to resign. We congratulate Ms. Cameron on her appointment and thank her for her tireless energy and incisive contribution to our Board of Directors.

The Management and the Board of Directors wish to pay tribute to the Churchill Group's highly dedicated employees who pride themselves on quality and service. These people are the foundation for the positive view we have for Churchill's future.

H.R. (Hank) Reid
President and C.E.O.

Stanton K. Hooper
Chairman

# Management Discussion and Analysis

### Review of Operating Results

While 1993 revenue was down $30.2 million from 1992 - $26.9 million attributable to lower construction activity and $3.3 million to not consolidating The Extra Equity Corporation - gross profit was relatively unchanged due to improved margins.

The net loss for the year increased to $5.3 million from $2.2 million in 1992. However, this does not properly reflect the profitability of the Company's ongoing operations as 1993 results include the following non-recurring items:

| | |
|---|---|
| • restructuring of a subsidiary | $ 1,440,000 |
| • asset revaluations | 4,248,000 |
| • discontinued operations | 998,000 |
| | 6,686,000 |
| • less: equity gain from asset disposal by an affiliate | 750,000 |
| | $ 5,936,000 |

Excluding these items, which are non-recurring in nature, the Company was profitable in 1993.

The restructuring charge is the result of a management decision to reduce the fixed costs of Stuart Olson Construction to match its available market. Stuart Olson is now in a much better position to be profitable and, in fact, was profitable in 1993, notwithstanding the significant restructuring charge.

**"Excluding items, which are non-recurring in nature, the Company was profitable in 1993."**

The significant asset revaluation costs are:

- an adjustment of $1.3 million to the carrying value of Properties for Sale reflecting current real estate market conditions and Churchill's intent to divest these assets in the near term.
- a $633,000 writedown of the Company's investment in U.S. oil and gas properties because of continuing low oil prices.
- an allowance of $2.2 million to reflect the long-term nature and diminished revenue prospects of the Company's joint venture investment.

Management believes these asset revaluations are non-recurring and reflect a conservative view of current economic and market conditions.

The loss from discontinued operations of $998,000 (1992 - $712,000) predominantly represents the operating results of Maran Equipment which was sold effective November 1, 1993. This subsidiary, which joined the Churchill Group in 1989, did not fit the Company's core business criteria, has never been a bottom-line contributor and was utilizing valuable corporate resources.

### Construction

The construction group, which operates throughout western Canada, is comprised of the following subsidiaries:

- Stuart Olson Construction Ltd., a general contractor,

- Triton Projects, an oilfield and pipeline mechanical contractor, and

- Insulation Holdings Inc., an insulation contractor, asbestos removal contractor and distributor of insulation materials.

Stuart Olson, the largest company in the group, operates in an industry sector which is still experiencing low levels of activity and severe competition. Demonstrating that its reputation for quality construction is well deserved, Stuart Olson successfully completed several major projects during the year. The largest commercial project in Calgary during 1993, the Eau Claire Market, was constructed by Stuart Olson as general contractor. Stuart Olson also successfully completed a hydro electric generating station in southern Alberta. The $13 million Sport and Wellness Centre at the new Grant MacEwan Community College campus in downtown Edmonton is another example of Stuart Olson's ability to complete projects on schedule and on budget. Vancouver continued to be the most active construction market and several projects were completed there during the year, the largest of which was the first phase of the President Hotel and Plaza in Richmond. The second phase of the hotel will be completed in early 1994.

**"...Stuart Olson successfully completed several major projects during the year."**

Insulation Holdings achieved a 17% increase in volume over 1992 levels but keen competition kept margin percentages below anticipated levels, causing gross profits to be virtually unchanged from the previous year. To assist in broadening its experience base, this company completed, for the first time, two new boiler insulation and cladding projects. This valuable experience should assist in winning new contracts in this complementary work category.

Triton Projects continues to be profitable despite competitive conditions in its traditional market place. Both revenue and gross profit are below 1992 levels but good management of overhead costs helped overcome this decline. Triton's performance tends to follow cyclical trends in the oil and gas industry and its outlook is very positive.

### Equity Investments

The returns from Churchill's equity investments in affiliated companies improved significantly in 1993 even without the $750,000 gain from asset disposition. This gain arose in March, 1993 when Marlin Travel sold its travel agency assets for a substantial profit.

Lafrentz Road Services, Shippers Supply and Russell Technologies, in aggregate showed an 18% improvement in profits over 1992.

### Real Estate

Two changes were made to the method of reporting Churchill's real estate investments in the 1993 statements. In view of the depressed real estate market conditions in Edmonton, the Company has concluded that recoveries from the Extra Equity joint venture are of such a long term nature that proportionate consolidation of this real estate investment is no longer appropriate. Details of the impact of this change are given in Note 2 to the Financial Statements. Consequently, the Company has also ceased to report segmented information on its real estate operations, as referred to in Note 19, because the relative amount of our real estate revenues and assets no longer justifies separate reporting.

Lot sales in Lewis Estates were very slow in 1993 due to the soft market but the development did maintain its market share. This was a busy year for this 50% owned residential golf course project in west Edmonton. A new twelve unit showhome parade was opened, the first nine holes of the golf course were in operation for a successful 3 month run and a second Breckenridge neighbourhood was opened, targeted to smaller, more affordable homes. Management believes the economics of this project could improve appreciably once consumer confidence returns to the Edmonton real estate market.

**"The Company's working capital has improved by $4.4 million from 1992..."**

### Liquidity

The Company's working capital has improved by $4.4 million from 1992, of which $387,000 results from not consolidating The Extra Equity Corporation.

Churchill's debt is $25 million as at December 31, 1993 as compared to $39 million at the end of 1992. Of the $14 million difference year over year, $12 million is due to the Extra Equity accounting change and the remainder to asset dispositions.

The Company's liquidity position is still tight and its high debt levels remain burdensome. Consequently the program of surplus asset disposal and debt reduction continues to be a top priority.

## Management's Responsibility for Financial Statements

Management is responsible for the preparation of the accompanying consolidated financial statements of the Company in accordance with generally accepted accounting principles, and for other financial and operating information, which information is consistent with the financial statements presented in this annual report. Systems of internal control are maintained by the Company to provide reasonable assurance of the completeness and accuracy of the financial information. These systems include the delegation of authority and segregation of responsibilities among qualified personnel in accordance with operating and financial policies and procedures. The Board of Directors appoints an Audit Committee which meets periodically with representatives of the Company's financial department and the Company's independent auditors. The committee reviews the Company's accounting policies and the scope and the results of the independent auditors' examination of the Company's financial statements. The independent auditors, who are appointed by the shareholders, examine and report on the financial statements of the Company in accordance with generally accepted auditing standards. The auditors' report to the shareholders of the Company follows. The consolidated financial statements in this annual report have been reviewed and approved by the Board of Directors and the Audit Committee.

H.R. Reid

H.R. (Hank) Reid
President and Chief Executive Officer

T.B. Dunnigan

Terrance B. Dunnigan, C. A.
Controller

## Auditors' Report

### To the Shareholders of The Churchill Corporation

We have examined the consolidated balance sheets of The Churchill Corporation as at December 31, 1993 and 1992 and the consolidated statements of loss, deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1993 and 1992 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Deloitte & Touche

Chartered Accountants
Edmonton, Alberta
April 22, 1994

# Consolidated Balance Sheets

December 31, 1993

| | (in thousands) | 1993 | 1992 |
|---|---|---|---|
| **ASSETS** | Current Assets | | |
| | Cash and Term Deposits (Note 4) | $ 9,246 | $ 11,738 |
| | Accounts Receivable | 40,384 | 36,741 |
| | Inventories and Prepaid Expenses | 4,591 | 7,470 |
| | Properties for Sale (Note 5) | 5,753 | 10,639 |
| | Current Portion of Agreements Receivable (Note 6) | 252 | 791 |
| | | 60,226 | 67,379 |
| | Agreements Receivable and Other (Note 6) | 2,534 | 398 |
| | Corporate Investments (Note 7) | 5,083 | 6,640 |
| | Property and Equipment (Note 8) | 5,057 | 8,289 |
| | Properties Under Development | — | 9,999 |
| | Goodwill | 435 | 528 |
| | | $ 73,335 | $ 93,233 |
| **LIABILITIES** | Current Liabilities | | |
| | Bank Indebtedness (Note 9) | $ 13,801 | $ 17,248 |
| | Accounts Payable | 31,758 | 32,030 |
| | Contract Advances and Unearned Income | 6,012 | 6,525 |
| | Provision for Future Development Costs | — | 1,229 |
| | Deferred Income Taxes (Note 10) | 1,173 | 1,129 |
| | Current Portion of Long-Term Debt (Note 11) | 1,067 | 7,169 |
| | | 53,811 | 65,330 |
| | Long-Term Debt (Note 11) | 10,096 | 14,295 |
| | Deferred Income Taxes (Note 10) | 51 | 36 |
| | Minority Interest | 1,100 | 967 |
| | | 65,058 | 80,628 |
| | Contingencies and Commitments (Notes 17 and 18) | | |
| **SHAREHOLDERS' EQUITY** | Shareholders' Equity (Note 12) | 8,277 | 12,605 |
| | | $ 73,335 | $ 93,233 |

Approved by the Board:

Director　　　　Director

# Consolidated Statements of Loss

Year Ended December 31, 1993

| (in thousands) | 1993 | 1992 |
|---|---|---|
| Revenue | $ 194,883 | $ 225,115 |
| Direct Costs | 180,873 | 210,995 |
| | 14,010 | 14,120 |
| Other Income (Note 13) | 1,562 | 552 |
| | 15,572 | 14,672 |
| Indirect and Administrative Expenses (Note 14) | 13,933 | 13,501 |
| Income from Continuing Operations Before Undernoted Items | 1,639 | 1,171 |
| Interest Expense | (1,619) | (2,071) |
| Provision for Income Taxes (Note 10) | (2) | — |
| Minority Interest | (100) | (540) |
| Asset Revaluation (Note 15) | (4,248) | — |
| Loss from Continuing Operations | (4,330) | (1,440) |
| Discontinued Operations (Note 3) | (998) | (712) |
| Net Loss | $ (5,328) | $ (2,152) |
| Basic and Fully Diluted Loss Per Common Share | | |
| Continuing Operations | $ (.56) | $ (.26) |
| Net Loss | $ (.67) | $ (.33) |

Basic and fully diluted loss per common share is calculated after deducting annual preferred dividends in arrears of $920,000. The weighted average number of common shares outstanding during the year was 9,327,265 (1992: 9,178,765).

# Consolidated Statements of Deficit

Year Ended December 31, 1993

| (in thousands) | 1993 | 1992 |
|---|---|---|
| Deficit, Beginning of Year | $ (19,843) | $ (17,691) |
| Net Loss | (5,328) | (2,152) |
| Deficit, End of Year | $ (25,171) | $ (19,843) |

# Consolidated Statements of Changes in Financial Position

Year Ended December 31, 1993

| | (in thousands) | 1993 | 1992 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | Loss from continuing operations | $ (4,330) | $ (1,440) |
| | Add (deduct) non-cash items | | |
| | Net equity (profit) loss | (806) | 519 |
| | Depreciation, depletion and goodwill amortization | 1,049 | 1,368 |
| | Gain on sale of assets | (194) | (74) |
| | Change in minority interest | 133 | (197) |
| | Net change in accounts receivable, inventories and prepaid expenses | (6,690) | 18,736 |
| | Net change in accounts payable, contract advances and unearned income | 1,544 | (19,870) |
| | Change in deferred income taxes | 59 | 94 |
| | Asset revaluation | 4,248 | — |
| | Cash used in continuing operations | (4,987) | (864) |
| | Cash provided by (used in) discontinued operations | 666 | (34) |
| | | (4,321) | (898) |
| **INVESTING ACTIVITIES** | Proceeds on sale of assets | 1,325 | 823 |
| | Proceeds from corporate investments | 2,859 | 2,998 |
| | Principal payments of agreements receivable | 91 | 254 |
| | Advances on agreements receivable | (628) | (240) |
| | Additions to corporate investments | — | (1,496) |
| | Additions to assets | (509) | (477) |
| | Increase in provision for future development costs | — | 81 |
| | Other | 76 | 11 |
| | Cash provided by investing activities | 3,214 | 1,954 |
| | Cash provided by discontinued investing activities | 776 | 122 |
| | | 3,990 | 2,076 |
| **FINANCING ACTIVITIES** | (Decrease) increase in bank indebtedness | (2,742) | 6,799 |
| | Issuance of long-term debt | 4,150 | 824 |
| | Long-term debt repayment | (2,327) | (1,807) |
| | Cash (used in) provided by financing activities | (919) | 5,816 |
| | Cash used in discontinued financing activities | (1,242) | (300) |
| | | (2,161) | 5,516 |
| | **(Decrease) Increase In Cash** | (2,492) | 6,694 |
| | **Cash, Beginning Of Year** | 11,238 | 4,544 |
| | **Cash, End Of Year** | $ 8,746 | $ 11,238 |

Cash is net of a $500,000 term deposit pledged as security (Note 4).

# Notes to the Consolidated Financial Statements

December 31, 1993

## 1. Significant Accounting Policies

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada, and reflect the following policies:

**Consolidation**

The consolidated financial statements include the accounts of the subsidiaries and the limited partnership as follows:

Stuart Olson Construction Corporation (100%)
Stuart Olson Construction Ltd. (100%)
Insulation Holdings Inc. (80%)
Triton Construction Inc. (80%)
Triton Projects Limited Partnership (80%)
SBEC Holdings Ltd. (100%)
Churchill Resource Investments Inc. (100%)
Insulation Contracting Specialties Inc. (100%)

In 1992, the Company's 50% interest in The Extra Equity Corporation, an incorporated joint venture, was accounted for using the proportionate consolidation method, whereby the Company's share of the assets, liabilities, revenues and expenses were included in the financial statements. In 1993, the joint venture has not been consolidated as the Company has determined proportionate consolidation is no longer appropriate (Note 2).

**Inventories**

Inventories are recorded at the lower of cost and net realizable value.

**Corporate Investments**

Corporate investments include significant equity interests in operating companies. These interests, where the Company has significant influence, are accounted for on the equity basis. Where the investee's year end precedes December 31, the Company's share of earnings is determined up to the investee's year end, adjusted for the impact of any significant subsequent results.

**Properties for Sale**

Properties for sale are recorded at the lower of cost and net realizable value.

Leasing costs on commercial properties are capitalized and amortized over the lease period.

Carrying costs, including property taxes, interest on debt and administration expenses are capitalized on undeveloped land for sale only if the resultant carrying value does not exceed estimated net realizable value.

Income from the sale of properties is recognized when the Company has fulfilled all material conditions and has received a down payment that is appropriate in the circumstances.

Depreciation on development properties for sale and improvements is provided on a 5% sinking fund basis over periods from 25 to 40 years.

**Property and Equipment**

Property and equipment are recorded at cost. Buildings, equipment and furnishings are depreciated using both the diminishing-balance and straight-line methods at the rates indicated in Note 8.

**Contract Income**

Revenue from construction contracts is recognized on the percentage of completion basis. Percentage of completion is determined by relating the actual cost of work performed to date to the current estimated total cost for each contract. Any projected loss is recognized immediately.

**Goodwill**

Goodwill is calculated as the excess purchase price paid on the acquisition of subsidiary and affiliated companies over the value assigned to identifiable net assets acquired and is amortized on a straight-line basis over periods not exceeding 20 years.

## 2. Interest in Joint Venture
(in thousands)

The Company owns a 50% interest in an incorporated joint venture. During the year, an assessment of market conditions resulted in a conclusion that joint venture recoveries in excess of the Company's advances is unlikely. In addition, the extent of the recourse against the Company available to the joint venture's debtors is restricted to a $500,000 limited guarantee. Accordingly, the Company has determined proportionate consolidation is no longer appropriate.

## 2. Interest in Joint Venture *(continued)*

(in thousands)

The Company's 1992 figures include 50% of the joint venture's accounts, as follows:

| | | 1992 |
|---|---|---|
| Cash | $ | 102 |
| Accounts receivable | | 670 |
| Fixed assets | | 42 |
| Land: | | |
| Under development | | 10,278 |
| Held for resale | | 4,156 |
| | $ | 15,248 |
| Accounts payable | $ | 173 |
| Provision for future development costs | | 1,229 |
| Current portion of long-term debt | | 4,372 |
| Long-term debt | | 9,413 |
| Retained earnings | | 61 |
| | $ | 15,248 |
| Revenue | $ | 3,347 |
| Direct costs | | (3,172) |
| Other income | | 29 |
| Indirect and administrative expenses | | (226) |
| Net loss | $ | (22) |

## 3. Discontinued Operations

On November 1, 1993, the Company sold its wholly-owned subsidiary, Maran Equipment Ltd., which represented the Company's equipment sales and service segment. As a result, the 1992 comparative figures in the Consolidated Statements of Loss and Changes in Financial Position have been restated to report these operations as discontinued.

These financial statements include the operating loss of Maran Equipment Ltd. to October 31, 1993. There was no gain or loss on disposition.

## 4. Cash and Term Deposits

As at December 31, 1993 cash and term deposits include $7,589,685 (1992: $6,436,635) the use of which is restricted to the payment of direct costs relating to specific construction projects. A term deposit of $500,000 is pledged as security for the debts of a joint venture (Note 2).

## 5. Properties for Sale

(in thousands)

| | | **1993 Net Book Value** | | 1992 Net Book Value |
|---|---|---|---|---|
| Developed properties | $ | **7,056** | $ | 6,322 |
| Residential lots | | **—** | | 4,156 |
| Undeveloped land | | **4,258** | | 4,854 |
| | | **11,314** | | 15,332 |
| Cumulative valuation adjustments | | **(5,561)** | | (4,693) |
| | $ | **5,753** | $ | 10,639 |

Developed properties are net of accumulated depreciation of $428,029 (1992: $260,061).

## 6. Agreements Receivable and Other

(in thousands)

| | 1993 | 1992 |
|---|---|---|
| Advances to joint venture | $ 4,688 | $ — |
| Mortgages, loans and agreements | | |
| Non-interest bearing | 86 | 739 |
| Interest at 6% to 9% (1992: 6% to 9%) | 291 | 316 |
| Interest at 9.25% to 12% (1992: 9.25% to 12%) | 420 | 223 |
| Deferred charges | — | 16 |
| Allowance for doubtful accounts | (2,699) | (105) |
| | 2,786 | 1,189 |
| Less current portion | (252) | (791) |
| | $ 2,534 | $ 398 |

The advances to joint venture are repayable from future cash flows with the first payment expected in 2005. The advances bear interest at Prime + 2%, however, the Company has waived interest for 1993 and does not expect interest income in the future.

## 7. Corporate Investments

(in thousands)

| | 1993 | 1992 |
|---|---|---|
| Equity investments | | |
| Preferred shares - up to 10% dividend rates | $ 948 | $ 2,148 |
| Net equity | 3,332 | 3,051 |
| | 4,280 | 5,199 |
| Marketable securities | | |
| At lower of cost or net realizable value | — | 27 |
| Oil and gas interests, net of depletion of $500,108 (1992: $439,800) | 803 | 1,414 |
| | $ 5,083 | $ 6,640 |

Unamortized goodwill included in equity investments is $401,166 (1992: $675,954). Preferred shares have cumulative dividend rights and are redeemable from profits of the investees. Preferred dividends in arrears, which have not been reflected in income, are $216,175 (1992: $176,425).

## 8. Property and Equipment

(in thousands)

| | 1993 | | | 1992 | |
|---|---|---|---|---|---|
| | Cost | Accumulated Depreciation | Net Book Value | Net Book Value | Depreciation Rates |
| Plant, equipment and furnishings | $ 7,485 | $ 5,317 | $ 2,168 | $ 3,758 | 6% - 33⅓% |
| Buildings and improvements | 2,895 | 1,032 | 1,863 | 2,710 | 4% - 25% |
| Land | 1,026 | — | 1,026 | 1,821 | |
| | $ 11,406 | $ 6,349 | $ 5,057 | $ 8,289 | |

## 9. Bank Indebtedness

Bank indebtedness is secured by floating charge debentures, general assignments of book debts and by the pledging of specific assets.

## 10. Income Taxes
(in thousands)

| | 1993 | 1992 |
|---|---|---|
| The income tax provision consists of: | | |
| Current Provision (Recovery) | $ **82** | $ (94) |
| Deferred | **(80)** | 94 |
| | $ **2** | $ — |

Deferred income taxes result primarily from a subsidiary's deduction for income tax purposes of accounts and holdbacks receivable not due until the following year.

The consolidated group has accumulated non-capital losses for income tax purposes of $11,754,000 which may be carried forward and used to reduce taxable income in future years. If not utilized, these losses will expire as follows:

| | |
|---|---|
| 1995 | $ 20 |
| 1996 | 774 |
| 1997 | 3,987 |
| 1998 | 2,546 |
| 1999 | 1,261 |
| 2000 | 3,166 |
| | $ 11,754 |

These financial statements have recognized $2,076,690 of the above tax losses carried forward through the reduction of deferred income tax liability.

## 11. Long-Term Debt
(in thousands)

| | 1993 | 1992 |
|---|---|---|
| Bank loans (Prime + 1.25% to 1.75%) (1992: Prime + 1.25% to 2%) | $ **5,917** | $ 13,224 |
| Mortgages (Prime + 0.5% to 10.875%) (1992: 9% to 12.75%) | **1,894** | 2,547 |
| Agreements payable (Prime + 1.25%) (1992: Prime + 1.25% to 2%) | **17** | 1,732 |
| Promissory note (10%) (1992: 9%) | **2,650** | 2,650 |
| Unsecured loan | **685** | 711 |
| Equipment financing | **—** | 600 |
| | **11,163** | 21,464 |
| Less current portion | **(1,067)** | (7,169) |
| Long-term debt | $ **10,096** | $ 14,295 |

Bank loans, secured by floating charge debentures and assignments of book debts, are payable on demand.

Mortgages, maturing between 1994 and 1998, are secured by charges against specific properties.

The promissory note, unsecured and due December 31, 1994, bears interest payable semi-annually, at rates of 10% and 11% in the years 1993 and 1994 respectively. Subsequent to year end, the note holder has agreed to extend the term of the note to December 31, 1997 and reduce the interest rate to 5%.

The unsecured loan is payable in quarterly instalments of $33,250 in 1994, $66,500 in 1995 and $99,750 in 1996. The loan is non-interest bearing and the required payments have been discounted at 9% to reflect the present value of the instalments due.

Interest cost on long-term debt during the year was $656,815 (1992: $870,713).

## 11. Long-Term Debt *(continued)*

Estimated principal amounts due in each of the next five years, assuming the promissory note is repaid on December 31, 1997 and assuming the mortgages are renewed on similar terms and conditions, are as follows:

| | |
|---|---|
| 1994 | $ 1,067 |
| 1995 | 1,248 |
| 1996 | 1,369 |
| 1997 | 3,330 |
| 1998 | 597 |

## 12. Shareholders' Equity
(in thousands)

| | **1993** | 1992 |
|---|---|---|
| Share capital | **$ 33,448** | $ 32,448 |
| Deficit | **(25,171)** | (19,843) |
| | **$ 8,277** | $ 12,605 |

Share capital
Authorized

| | |
|---|---|
| 6,500,000 | Series A 8% cumulative redeemable first preferred shares. Redemption, at $1.00 per share, is based on 20% of net cash flow beginning in 1992 with full redemption by December 31, 1995 |
| 1,923,077 | Series A 8% cumulative redeemable second preferred shares redeemable at $2.60 per share on December 31, 1997 |
| 3,500,000 | First preferred shares issuable in series with rights set by the directors |
| 8,076,923 | Second preferred shares issuable in series with rights set by the directors |
| 110,000,000 | Class A common shares |

Issued

| | **1993** | | | |
|---|---|---|---|---|
| | **Shares** | **Share Capital** | **Contributed Surplus** | **Total** |
| Series A 8% cumulative first preferred shares | **6,500,000** | **$ 6,500** | **$ —** | **$ 6,500** |
| Series A 8% cumulative second preferred shares | **1,923,077** | **5,000** | **—** | **5,000** |
| Total preferred shares | | **11,500** | **—** | **11,500** |
| Class A common shares | **9,377,265** | **13,716** | **8,232** | **21,948** |
| | | **$ 25,216** | **$ 8,232** | **$ 33,448** |

## 12. Shareholders' Equity
*(continued)*

Issued

| | 1992 | | | |
|---|---|---|---|---|
| | Shares | Share Capital | Contributed Surplus | Total |
| Series A 8% cumulative first preferred shares | 6,500,000 | $ 6,500 | $ — | $ 6,500 |
| Series A 8% cumulative second preferred shares | 1,923,077 | 5,000 | — | 5,000 |
| Total preferred shares | | 11,500 | — | 11,500 |
| Class A common shares Issued, beginning of year | 9,380,265 | 13,720 | 8,228 | 21,948 |
| Less Shares cancelled by agreement | (3,000) | (4) | 4 | — |
| Class A common shares Issued, end of year | 9,377,265 | 13,716 | 8,232 | 21,948 |
| Less Issued shares held by affiliate | (200,000) | (200) | (800) | (1,000) |
| Total common shares | 9,177,265 | 13,516 | 7,432 | 20,948 |
| | | $ 25,016 | $ 7,432 | $ 32,448 |

**Shares Held by Affiliate** In 1993, the 200,000 Class A common shares of the Company held by an affiliate were sold by the affiliate.

**Shares Cancelled** In 1992, 3,000 Class A common shares of the Company were submitted for cancellation fulfilling the terms of the Company's redemption of a convertible debenture in 1991.

**Options and Conversion Rights** Rights to acquire 1,923,077 (1992: 4,613,347) Class A common shares at $2.60 (1992: $2.56 to $3.60) are outstanding and exercisable January 1, 1994 through to December 31, 1997.

In addition the Company has granted an officer options to purchase up to 200,000 Class A common shares at $0.35 to $1.00 exercisable to November 30, 1996. Sufficient shares to satisfy these options are held by a trustee.

**Preferred Shares** The fixed cumulative dividends on first and second preferred shares remain unpaid for the period September 30, 1990 to December 31, 1993 and total $3,220,000 (1992: $2,300,000). The Articles of the Company provide that in the event dividends on preferred shares remain unpaid for any reason for two calendar years then such preferred shares become voting shares on the basis of one vote per share and such shares continue to have voting rights attached to them until all dividends remaining unpaid have been paid. All the preferred shares are held by two shareholders and are now voting shares.

## 13. Other Income

(in thousands)

| | | 1993 | | 1992 |
|---|---|---|---|---|
| Other income consists of: | | | | |
| Interest income | $ | **155** | $ | 394 |
| Equity profit (loss) | | **806** | | (519) |
| Dividends | | **82** | | 87 |
| Amortization of affiliates' goodwill | | **(33)** | | (45) |
| Oil and gas | | **117** | | 160 |
| Management fees | | **95** | | 388 |
| Sundry | | **340** | | 87 |
| | $ | **1,562** | $ | 552 |

Included in equity profit is $750,000 (1992: nil) relating to an affiliate's gain from selling substantially all of its assets.

## 14. Restructuring Costs

Included in indirect and administrative expenses is $1,440,000 (1992: nil) relating to restructuring costs of a subsidiary in the construction business.

## 15. Asset Revaluation

(in thousands)

Asset revaluation consists of:

| | | |
|---|---|---|
| Writedown of properties for sale | $ | 1,306 |
| Writedown of corporate investments | | 705 |
| Writedown of agreements receivable | | 2,232 |
| Other | | 5 |
| | $ | 4,248 |

## 16. Related Party Transactions

(in thousands)

The following balances were outstanding or transactions occurred with affiliated companies:

| | | 1993 | | 1992 |
|---|---|---|---|---|
| Accounts receivable | $ | **150** | $ | 175 |
| Accounts payable | $ | **—** | $ | 234 |
| Management and advisory fees income | $ | **102** | $ | 388 |

These related-party transactions are in the normal course of business on terms similar to transactions with non-related parties.

## 17. Contingencies

(a) A subsidiary of the Company has outstanding claims of approximately $1,897,000 for work completed in 1992 and 1993 beyond the original scope of the related contracts. As management is currently unable to estimate the outcome of these claims, actual proceeds less realization costs will be taken into income when settlements occur.

(b) The Company and its subsidiaries are defendants in lawsuits involving various amounts. Management is of the opinion that the results of these actions should not have any material effect on the financial position of the Company. Any awards or settlements will be reflected in income as the matters are resolved.

## 18. Commitments

(in thousands)

The Company leases certain equipment, vehicles and office premises. Under existing terms of the leases, future minimum lease payments over the next five years are:

| | | |
|---|---|---|
| 1994 | $ | 697 |
| 1995 | | 586 |
| 1996 | | 530 |
| 1997 | | 461 |
| 1998 | | 332 |

## 19. Segmented Information
(in thousands)

| | 1993 | | | |
|---|---|---|---|---|
| | Construction | Equity Investments | Other | Consolidated |
| Revenue | $ 194,371 | $ — | $ 512 | $ 194,883 |
| Direct Costs | (180,514) | — | (359) | (180,873) |
| | 13,857 | — | 153 | 14,010 |
| Other Income | — | 855 | 707 | 1,562 |
| | 13,857 | 855 | 860 | 15,572 |
| Indirect and Administrative (Note 14) | (12,423) | — | (1,510) | (13,933) |
| Income (Loss) Before Undernoted Items | $ 1,434 | $ 855 | $ (650) | 1,639 |
| Interest | | | | (1,619) |
| Provision for Income Taxes | | | | (2) |
| Minority Interest | | | | (100) |
| Asset Revaluation | | | | (4,248) |
| Discontinued Operations | | | | (998) |
| **Net Loss** | | | | $ (5,328) |
| Identifiable Assets | $ 56,053 | $ 4,280 | $ 13,002 | $ 73,335 |
| Capital Expenditures | $ 461 | $ — | $ 48 | |
| Depreciation and Amortization | $ 753 | $ — | $ 155 | |

As a result of not consolidating the Company's 50% joint venture in 1993, as described in Note 2, the remaining Real Estate operations do not constitute a reportable segment and are included in Other.

## 19. Segmented Information *(continued)*
(in thousands)

| | 1992 | | | | |
|---|---|---|---|---|---|
| | Construction | Real Estate | Equity Investments | Other | Consolidated |
| Revenue (Loss) | $ 221,301 | $ 4,216 | $ (477) | $ 75 | $ 225,115 |
| Direct Costs | (207,397) | (3,598) | — | — | (210,995) |
| | 13,904 | 618 | (477) | 75 | 14,120 |
| Other Income | — | — | — | 552 | 552 |
| | 13,904 | 618 | (477) | 627 | 14,672 |
| Indirect and Administrative | (12,004) | (226) | — | (1,271) | (13,501) |
| Income (Loss) Before Undernoted Items | $ 1,900 | $ 392 | $ (477) | $ (644) | 1,171 |
| Interest | | | | | (2,071) |
| Minority Interest | | | | | (540) |
| Discontinued Operations | | | | | (712) |
| **Net Loss** | | | | | $ (2,152) |
| Identifiable Assets | $ 50,286 | $ 24,337 | $ 5,226 | $ 13,384 | $ 93,233 |
| Capital Expenditures | $ 419 | $ 58 | $ — | $ — | |
| Depreciation and Amortization | $ 1,020 | $ 158 | $ — | $ 154 | |

## 20. Comparative Figures

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

## Corporate Directory

### Board of Directors

Peter F. Adams
Robert G. Brawn
Mary J. Cameron*
Oleh S. Hnatiuk
Stanton K. Hooper
Donald E. Johnson
William R. McKenzie
Henry R. Reid
Brian W. L. Tod, Q.C.

*Retired from Board since Annual Meeting

### Officers

S. K. Hooper
Chairman

H. R. Reid
President and
Chief Executive Officer

L. A. Patrick
Vice President and Corporate
Counsel and Corporate
Secretary

T. B. Dunnigan, C.A.
Controller

### Annual General Meeting

*The Annual General Meeting of Shareholders will be held at 9:00 a.m., June 22, 1994*
*The Westin Hotel*
*10135 - 100 Street*
*Edmonton, Alberta*

### Legal Counsel

Cook Duke Cox
Milner Fenerty
Ogilvie & Company

### Auditors

Deloitte & Touche

### Transfer Agent

The R-M Trust Company
600 The Dome Tower
333 - 7th Avenue S.W.
CALGARY, Alberta
T2P 2Z1

### Bankers

Alberta Treasury Branches
Barclays Bank of Canada

### Exchange Listing

Alberta Stock Exchange
Trading Symbol: "CUQ"

### Executive Offices

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Telecopier: (403) 425-6822
Telephone: (403) 424-8230

May 16, 1994

Churchill

**The Churchill Corporation**

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